Study Questions for George Reisman's *Capitalism: A Treatise on Economics*

CHAPTER 19. GOLD VERSUS INFLATION
PART A. INFLATION OF THE MONEY SUPPLY VERSUS ALTERNATIVE THEORIES OF RISING PRICES

1. State both the popular definition of inflation and the alternative definition presented in *Capitalism*.
2. (a) Explain what is meant by "demand-pull inflation" and "cost-push" inflation. (b) List the various popular explanations of inflation that fall under one or the other of these two heads.
3. Explain why the definition of inflation as rising prices results in people having no ready idea of what causes inflation in any given case except the greed of businessmen.
4. Explain why the definition of inflation as rising prices implies that price controls are the solution for inflation.
5. State and explain the formula for the general consumer price level.
6. Explain why the formula for the general consumer price level limits the direct, immediate explanation of rising prices to either a rise in aggregate demand or fall in aggregate supply.
7. Describe the effect of supply on prices in the United States and practically all other countries over the last fifty years.
8. Explain why where falling supply has contributed to rising prices, its role has been relatively minor.
9. Explain why reductions in supply as the cause of rising prices imply the rapid disappearance of material civilization.
10. Explain how falling supply is itself often the by-product of rapid increases in aggregate demand.
11. (a) Explain why falling supply cannot explain the range of price increases that exists under inflation. (b) Explain how, on the other hand, rising aggregate demand does explain the range of price increases that exists under inflation.
12. (a) Explain why rising prices caused by falling supply are incompatible with the debtor/creditor effects associated with inflation. (b) Explain how it is possible for creditors actually to be worse off than debtors as the result of rising prices caused by falling supply. (c) Explain how, unlike rising prices caused by falling supply, rising prices caused by rising aggregate demand are fully compatible with the debtor/creditor effects associated with inflation.
13. Explain why the belief that falling supply is a cause of inflation implies the overproduction doctrine.
14. Summarize the seven reasons why falling aggregate supply must be eliminated as the cause of an inflationary rise in prices, leaving only rising aggregate demand (and, underlying it, a rising quantity of money).
15. What assumptions lead people to believe that the rising prices of the last two generations could not have been caused by rising aggregate demand, but only by rising costs of production or the greed for higher profits.

16. Explain why the cost-push doctrine is mathematically equivalent to blaming rising prices on falling supply.
17. Explain the effect of wage increases imposed by labor unions on unemployment if there is no increase in the quantity of money and thus in aggregate demand.
18. Starting from a position of full employment, explain to what extent could labor unions succeed in raising wage rates before bringing about an unemployment rate comparable to that of the great depression, if there is no increase in the quantity of money and thus in aggregate demand.
19. Explain how, over the same period of time that the unions were driving up wage rates, *prices* could actually fall substantially.
20. "Labor unions are not a significant cause of rising prices, but of unemployment." Discuss.
21. "In order for "wage-push" to have a sustained significant effect on the general consumer price level, it must be sustained by an increasing quantity of money and rising aggregate demand." Discuss.
22. Explain how the increase in the quantity of money and rising aggregate demand encourages "wage push"--indeed, calls it into being when it otherwise would not exist.
23. "The intellectual zone of explanation of rising prices previously regarded as belonging to the wage-push doctrine should henceforth be regarded as having been annexed by the quantity theory of money." Discuss.
24. Explain what is meant by the "profit-push" doctrine.
25. Explain why in the absence of increases in demand even a protected legal monopolist, while almost certainly charging very high prices, would not charge continually *rising* prices.
26. Explain why even if a protected legal monopolist were faced with a rising demand for his particular product, no rise in the general consumer price level would be present in the absence of a rise in *aggregate* demand.
27. Explain why, apart from the case of protected legal monopolists, the normal operation of the profit motive is steadily to *reduce* prices, not increase them.
28. Explain how an increasing quantity of money and rising aggregate demand creates an association between rising prices and higher nominal profits.
29. Explain and illustrate what is meant by the "crisis-push" doctrine.
30. Explain why, in the absence of increases in the quantity of money and aggregate demand, supply crises while causing dramatic increases in the prices of some goods, would result in numerous price reductions, including reductions in prices that constitute costs of production.
31. Explain why any given supply crisis is unable to explain more than a one-time delimited rise in the general consumer price level.
32. Explain why, in the absence of increases in the quantity of money and aggregate demand, any given supply crisis should usually be expected to be followed by a reduction in the general consumer price level, probably all the way to the point of where the price level was before the crisis. Also explain why the public generally does not expect such a result.
33. "In order to explain a rising price level on the basis of supply crises, one would have to find not only replacement crises for the ones that have been solved, but additional crises as well. And in the next year, one would have to find replacements for this larger

number of crises, along with still more additional crises; and this would have to go on from year to year at a compound rate." Discuss.
34. Name the two errors of the crisis-push doctrine and their underlying error in thinking.
35. Explain what is meant by the wage-price spiral.
36. Explain why, in the absence of increases in the quantity of money and aggregate demand, any wage-price spiral would quickly burn itself out. Illustrate your answer in terms of the experience of the early 1980s with respect to the provisions of union contracts.
37. Explain what is meant by the "velocity" doctrine.
38. Describe the relationship of the velocity doctrine (a) to the role of the increase in aggregate demand in raising prices and (b) to the role of the increase in the quantity of money in raising prices
39. Explain why increases in velocity caused by factors other than the increase in the quantity of money are unlikely to result in increases in the general consumer price level.
40. Briefly describe the four ways in which increases in the quantity of money operate to raise velocity and thereby further contribute to the rise in prices.
41. Explain why all that is required than to reduce velocity is to cut back on the rate of increase in the quantity of money.
42. What has happened to velocity since the early '80s. Why?
43. "The intellectual zone of explanation previously claimed by the velocity doctrine should henceforth be regarded as annexed by the quantity theory of money." Discuss.
44. Explain what is meant by inflation psychology.
45. Explain what causes inflation psychology.
46. Explain how inflation psychology operates from the side of supply and what the limits of such operation are.
47. Explain how inflation psychology makes inflation into a cause of unemployment.
48. Explain what is required to eliminate inflation psychology.
49. Explain why the elimination of inflation psychology may need to be accompanied by a financial crisis.
50. Explain why inflation psychology would not be a problem under a gold standard.
51. Explain what is meant by "the credit card doctrine."
52. Explain how the use of credit cards serves actually to *reduce* the velocity of money rather than increase it, despite the fact that people no longer need to hold as much currency as they otherwise would.
53. Explain why insofar as the possession of credit cards may contribute to a rise in velocity, by representing guaranteed lines of credit, the rise in velocity is to be attributed to the ability of the banking system to increase the quantity of money. (In your answer, be sure to explain what has made possible the widespread granting of such substantial lines of credit and to distinguish between the effect of lines of credit extended on the basis of accumulated savings and lines of credit extended on the basis of the ability to increase the quantity of money.)
54. Explain what is meant by the consumer-installment credit doctrine.
55. Explain under what circumstances the granting of credit (whether consumer-installment credit or otherwise) does not serve to increase aggregate demand and under what circumstances it does serve to do so.
56. Explain why the incurrence of debt is not inflationary in and of itself.

57. Explain what is meant by the consumer-greed doctrine.
58. Explain what is wrong with the consumer-greed doctrine with respect to (a) overgeneralization, (b) its assumption concerning the connection between "greed" and the demand for money for holding, and (c) its assumption concerning the effect of the desire for a higher standard of living on prices.
59. Explain what is required to make "consumer greed" translate into a lower demand for money for holding rather than a higher demand for money for holding.
60. "As far as the explanations of rising prices other than the quantity theory of money contain any kernel of validity at all, it is only as an extension of the quantity theory of money." Discuss.
61. Explain why the undue increase in the quantity of money, which is what underlies the rise in prices, is the result of government action.
62. Explain why all of the knowledge concerning the cause of rising prices presented in this book can be summarized in a definition of inflation as *an increase in the quantity of money more rapid than the increase in the supply of gold and silver*, which is to say, *an increase in the quantity of money caused by the government*.
63. Contrast the definition of inflation in the preceding question with the definition as rising prices, with respect to: (a) the information conveyed concerning the cause of rising prices, (b) the ability to understand the causation of the full range of symptoms associated with inflation, (c) the ability to distinguish between rising prices caused by more demand and rising prices caused by less supply, (d) the information conveyed about how to stop inflation, (e) the ability to raise further questions about the causes and effects of inflation.

PART B. THE DEEPER ROOTS AND FURTHER EFFECTS OF INFLATION

1. Explain the nature of the connection between inflation and government budget deficits.
2. Explain why government budget deficits in and of themselves are not inflationary.
3. Explain what is required to make government budget deficits inflationary.
4. Explain why under a gold standard, government budget deficits can actually be deflationary.
5. Explain how inflation could go on while the government operated with a budget surplus.
6. Explain why only the budget deficit of the federal government can be inflationary at the present time, not those of state or local governments.
7. Explain how the ability of the federal government to create new and additional money prevents it from going bankrupt in the technical sense no matter how large its debt becomes.
8. Explain why, despite the previous question, the federal government has probably long been bankrupt in the sense of an inability to repay its debt in terms of the same purchasing power in which the debt was contracted.
9. Explain why depriving the government of the power to inflate the money supply--i.e., establishing a gold standard--is essential to its operating with balanced budgets.
10. Describe the motives and rationale for budget deficits and inflation under the following headings: (a) the welfare state, (b) inflation and war finance, (c) inflation and the "easy money" doctrine, (d) inflation as the alleged cure for unemployment.
11. Explain the underlying influence of the socialist ideology in (a), (c), and (d) of the preceding question.

12. Explain how the government's ability to inflate the money supply destroys peoples' understanding of the fact that the government is supported by them and leads them to believe instead that they are supported by the government.
13. Explain how the government's ability to inflate the money supply has contributed to the growth in the size of the government relative to the economic system.
14. Explain why the practice of inflation and budget deficits is in conflict with the principle of representative government.
15. Explain how inflation operates to redistribute wealth and income. In your answer, be sure to include a discussion of the differing effects of inflation on those whose selling prices and incomes rise relatively early and those whose selling prices and incomes rise relatively late.
16. Explain how those who introduce the new and additional money gain at the expense of others.
17. Explain why the poor and the elderly are among the worst victims of inflation.
18. Explain how inflation makes the traditionally safest types of investments the least safe.
19. Explain what the safety of fixed income or asset investments comes to depend on under a fiat paper money system.
20. Explain how in making the traditionally safest types of investments the least safe, inflation undermines capital formation.
21. Explain how inflation operates to increase the effective rate of taxation on business investments. Illustrate your answer in terms of the effect on profits earned on inventories and profits earned on investment in plant and equipment.
22. Explain how inflation operates to raise the effective rate of taxation on interest incomes.
23. Explain how inflation operates to raise the effective rate of taxation on capital gains.
24. Explain how inflation contributes to the decline of the government-managed infrastructure.
25. Explain and illustrate what is meant by the prosperity delusion of inflation, and how it contributes to overconsumption and the undermining of capital.
26. Explain how even after people stop regarding themselves as enriched by inflation, inflation continues to promote overconsumption.
27. Show how inflation transfers wealth from lenders to borrowers in the case of home mortgages, and why this contributes to overconsumption.
28. Explain how inflation in the form of credit expansion operates to reduce the rate of interest relative to the rate of profit, while at the same time operating to raise the rate of interest.
29. Explain what is meant by malinvestment and how the situation described in the preceding question fosters malinvestment.
30. Explain and illustrate how inflation in the form of credit expansion makes investments that actually lose in real terms appear to be profitable nonetheless, and to be profitable in fact to some investors.
31. Describe the kind of malinvestment that von Mises attributes to credit expansion.
32. Explain how malinvestment further impairs capital formation in reducing the efficiency with which existing capital goods are used.

33. Explain how the existence of malinvestment confirms the proposition that inflation does not raise all prices at the same time and to the same extent.
34. Explain what is meant by the withdrawal-of-wealth effect and the ways in which it contributes to the undermining of capital formation.
35. Describe the ways in which inflation operates to reduce the real rate of return on capital at the same time that it impairs capital formation.
36. Explain why the fact that inflation reduces the real rate of return on capital as such implies that the gains of debtors resulting from inflation are less than the losses of creditors. (Illustrate your answer with examples drawn from malinvestment in inventories and housing.)
37. Explain how inflation operates to impoverish wage earners by virtue of its effects on the productivity of labor and on the so-called distribution factor. In conjunction with your answer, explain the effect of inflation on (a) the demand for capital goods relative to the demand for consumers' goods and the degree of capital intensiveness in the economic system, (b) the efficiency with which existing capital goods are employed (c) the demand for labor relative to the demand for consumers' goods.
38. Explain why efforts on the part of labor unions to resist the fall in real wages caused by inflation result in unemployment.
39. Explain how in the long run inflation operates to prevent common stock prices from keeping pace with the prices of consumers' goods.
40. Explain how inflation gives rise to the phenomenon of an inflationary depression--i.e., a rapidly increasing quantity of money and rapidly rising prices accompanied by widespread insolvencies and bankruptcies.
41. Explain how inflation, especially in the form of credit expansion, sets the stage for a financial contraction and deflation. In your answer, be sure to explain (a) how inflation brings about an increase in the volume of spending and in sales revenues and incomes that is more than proportional to the increase in the quantity of money, (b) the effect of inflation on the degree of liquidity in the economic system, i.e., on the ratio of cash holdings to current liabilities, (c) how inflation, especially in the form of credit expansion, encourages the incurrence of debt, (d) what must happen, in view of your answers to the preceding questions, to the demand for money for holding and to the ability to repay debts if and when inflation stops, (e) what can happen to the solvency of banks and thus to the quantity of money, in view of your answer specifically to the previous part of this question.
42. Explain how the ending of inflation can result in numerous investments suddenly becoming loss making, even before a major decline in demand sets in.
43. Explain how the stoppage of credit expansion results in a "credit crunch" and in an increase in the demand for money for holding.
44. Explain how the mere slowing down or failure of credit expansion to accelerate sufficiently can result in a credit crunch.
45. "The failure of inflation to accelerate sufficiently can also cause the demand for money for holding to increase, and thus velocity to decrease, insofar as the demand for money for holding has become unduly low based on the expectation of a more rapid acceleration of inflation than turns out to be the case." Discuss.
46. Explain why in order to produce a credit crunch and the onset of a depression, it is not necessary that credit expansion result in an actual rise in wage rates and materials prices.

47. Explain what is meant by gold clauses.
48. Explain why under a fractional reserve gold standard, inflation of the supply of paper money that is redeemable on demand in gold can lead to a *reduction* in the quantity of money insofar as it is considered as the equivalent of gold, and thus to a reduction in the ability to repay debts containing gold clauses.
49. Explain how in the conditions described in the previous question, efforts to increase the supply of money, and the prospect that they will succeed in the future, can bring about a reduction in the quantity of money in the present.
50. Explain why the policy of the Hoover Administration of running what for the time were major budget deficits, and the policy of the Federal Reserve of attempting to increase the supply of dollars in order to reduce interest rates and to finance the deficits, may have served to intensify the deflation and depression of the early 1930s.
51. Explain how the policy of inflation and consequent devaluation against gold may have served to reduce the volume of international trade in particular in the early 1930s.
52. Explain the effects of an increase in the supply of Mexican pesos that causes a more-than-proportionate devaluation of the peso against the dollar on the ability of Mexican firms to pay their dollar debts. Does such an increase in the supply of pesos represent a deflationary inflation?
53. Explain why, indirectly, inflation and credit expansion must be blamed for the mass unemployment that results from financial contraction, deflation, and depression.
54. "Given the existence of inflation, it is true that its continuation and acceleration can forestall the development of mass unemployment. But this no more makes inflation a means of preventing unemployment than narcotics are a means of preventing sickness and debilitation." Discuss.
55. Explain why in the face of the existence of strong monopoly labor unions, inflation is ineffectual as a remedy for existing unemployment.
56. Explain why those who are reemployed on the various make-work projects that almost always accompany any attempt to eliminate unemployment by means of inflation, are employed at a loss to the rest of the population.
57. Describe the special conditions in which a resumption of inflation can achieve substantial reemployment.
58. Describe the negative features of such a policy.
59. Describe an alternative means of achieving reemployment.
60. Explain why the resumption and continuation of inflation is bound to be accompanied by substantial unemployment sooner or later.
61. Explain how it is possible for mass unemployment to come into existence in the midst of major inflation, e.g., for an unemployment rate of 25 percent, to come into existence alongside an annual rate of price increases of 50 percent.
62. Describe the ultimate limit of accelerating inflation.
63. Describe the three stages that inflation goes through according to von Mises before reaching its ultimate limit.
64. Explain why, in the absence of an acceleration of inflation, there must be a fall in the rate of increase in spending.
65. Explain why, in the absence of an acceleration of inflation, there must be a fall in the rate of profit.

66. Explain why, in the absence of an acceleration of inflation, the gains experienced by debtors at the expense of creditors as the result of inflation wear off.
67. Explain why the underlying premises of the welfare state, which lead to the policy of inflation in the first place, logically call for more and more rapid inflation as time goes on.
68. Explain the role of inflation in fostering the belief that Washington, D. C., a city that is economically insignificant in terms of what it produces or contributes to production, is nevertheless capable of bailing out the economies of such major cities as Detroit, Newark, and New York, indeed, the economies of entire states and multistate regions.
69. Explain and illustrate how inflation comes to be demanded as the means of solving problems largely created by inflation. Be sure that your answer covers the following matters: (a) rescues and bailouts, (b) government aid to the elderly, (c) government aid to the mortgage market, (d) the government's real revenues, (e) papering over credit crunches and profit squeezes.
70. Explain how recessions can serve as inflationary fueling periods.
71. "Price indexing does not provide any means for dealing with the problem of lags between the rise in the prices one must pay and the prices or income that one receives. At most it can enable an individual to catch up with the rise in prices. But it does not compensate people for the loss of purchasing power they experience in the intervals before catching up." Discuss.
72. (a) Name the leading instances in which price indexes are currently in use in the United States. (b) Name some additional areas that are likely candidates for the use of price indexes in the future. (c) Explain how in all of these areas the use of price indexes operates to make inflation accelerate.
73. Describe the operation of the "wage ratchet" in connection with the acceleration of inflation.
74. Describe the operation of the "interest ratchet" in connection with the acceleration of inflation.
75. Explain the limits of the interest ratchet and why, when they are reached, the potential is created for a quantum leap in the rate of inflation.
76. Explain what brought about the deceleration of inflation in the 1980s.
77. Describe the effects of the deceleration of inflation on the real estate market and on related financial institutions.
78. Explain the effect of the deceleration of inflation on inflation psychology.
79. Explain why the reacceleration of inflation from 19821987 was accompanied by a greater desire to own balances of money than had existed in the late 1970s.
80. Explain how the effect of the very sharp reacceleration of inflation in 1985 and 1986 served to defeat the purpose of those who had advocated the reacceleration in order to reduce the foreign exchange value of the dollar.
81. Describe the changes in money supply increase that precipitated the severe recession of 1990-92.
82. Explain why, on the basis of the factors determining the demand for money for holding, in the absence of a renewed substantially more rapid rate of increase in the money supply in the years 199193, the economic system would likely have gone into a major depression.

83. Explain why the very rapid increases in the quantity of money in 199193 drove short-term interest rates to levels not seen since the 1950s.
84. Describe the two camps into which government policy makers divided in response to the recession of 199092.
85. "The government's response to the depression or near-depression of 19901992 confirms that recessions and even virtual depressions nowadays do indeed represent inflationary fueling periods." Discuss.
86. Is the Federal Reserve System a private institution or a government agency? Discuss.
87. How rapidly must prices be rising for an administration to have substantial political support for reducing inflation at the risk of a double digit unemployment rate? Discuss.
88. To what extent can prices be expected to rise on a compound annual basis over the next decade? Discuss. (a) Describe the factors making for a more rapid rate of increase. (b) Explain what is necessary to restrain those factors. (c) Can the government be expected to continue to do what is necessary to prevent the reappearance of growing inflation psychology?
89. If the government were willing to do what is necessary to prevent such reappearance, how would the situation differ from the preNew Deal days in which limited inflations were always brought to a sharp halt and followed by a depression?
90. Continuing the preceding question, is any fundamental difference introduced by virtue of the government's present ability to go on increasing the quantity of money indefinitely, at any rate it deems necessary, whereas it lacked such ability under the fractional-reserve gold standard of the preNew Deal days? Discuss.
91. Explain how if inflation were to accelerate out of all bounds, it would end up destroying the existing monetary unit.
92. Describe the conditions under which if inflation were accelerated to the point of destroying the monetary unit, it could destroy the existence of money as such, and what the consequences would be for the existence of the division of labor and all that depends on the division of labor.
93. State and discuss the leading historical example of the destruction of money and the resulting consequences.
94. Explain what conditions must be present in order to introduce a new monetary unit to replace a monetary unit that has been inflated out of existence.
95. While a new mark could be introduced following the German hyperinflation of 1923, on the basis of convertibility to the dollar, it might not be possible to introduce a new dollar on the basis of convertibility to the mark or yen if the United States were to experience hyperinflation. Discuss.

PART C. GOLD

1. Explain how the widespread ownership of gold and silver coins would serve as a guarantee against the destruction of money as the result of hyperinflation.
2. Explain why if not prevented by government interference, inflation at the rate experienced in the United States in the 1970s leads to the growing ownership of precious metals. In your answer, be sure to explain why inflation at such a rate deprives the customary forms of investment, including common stock ownership, of their real profitability.
3. Explain how in the absence of government interference to prevent it, inflation operates to bring about a spontaneous remonetization of the precious metals.

4. Describe what it would be necessary for the government to do or avoid doing that would foster the spontaneous remonetization of the precious metals. Your answer should cover the following aspects: (a) the taxation of transactions in precious metals, (b) the enforceability of contracts payable in precious metal, (c) the importation of precious metals, (d) the ability of merchants to practice discrimination between paper money and precious metal coins of the same face value.
5. "Fiat money can be maintained in existence only by the forcible suppression of the competition of gold." Discuss.
6. Explain why the requirement that paper money be redeemable in gold at a fixed, known rate is not a form of price control.
7. Describe positive measures the government might take with respect to the following, that would foster the remonetization of the precious metals: (a) the minting of precious metal coins, (b) the collection of taxes, (c) the sale of government assets, (d) the protection of creditors from large-scale depreciation of the paper money.
8. Present the case for a 100-percent-reserve gold standard in terms of its ability to prevent both inflation and deflation. In your answer, be sure to explain (a) why the falling prices that would probably exist under the standard, would not be deflationary either with respect to the height of the rate of profit or with respect to the ability of business firms and individuals to repay their debts and (b) why the 100-percent-reserve gold standard would actually serve as the strongest possible guarantee against deflation on the basis of its effect on the possibility either of sudden substantial increases in the demand for money or sudden substantial decreases in the supply of money.
9. Explain why adopting a fractional-reserve gold standard, in order to enable the quantity of money to grow more rapidly than the quantity of gold, implies the need for an ever declining fractional gold reserve.
10. Explain why the rate of increase in the supply of gold itself is likely to be greater under a 100-percent-reserve system than under any fractional-reserve system in which the fraction of gold is fixed.
11. Describe the effects of a 100-percent-reserve gold standard on (a) the risk of currency depreciation on the part of countries that had it, (b) international investment, (c) the possibility of government budget deficits, (d) the size of government, (e) the frequency and duration of wars, (g) the risk of arbitrary redistribution of wealth and income, (h) saving and investment, (i) the taxation of profit and interest income.
12. Contrast the 100-percent-reserve gold standard with a fractional reserve gold standard in terms of conformity to the law of the excluded middle as to whether a given sum in the possession of a bank depositor or note holder represents cash held at the bank or a loan made to the bank.
13. Explain the argument that legislation requiring 100-percent-reserve banking in connection with checking deposits and banknotes would not constitute government interference, but only an exercise of the government's proper powers.
14. Discuss the claim that fractional-reserve banking and the issuance of fiduciary media increase the volume of capital and credit that exists in the economic system. Present the arguments for reaching the opposite conclusion and show how, even if the claim were correct, any loss of capital and credit entailed in the abolition of fiduciary media could be far more than compensated for by reduction in the national debt.

15. Explain why a 100-percent-reserve gold standard implies an important monetary role for silver and some significant role for subsidiary token coins.
16. (a) Explain why the modest issue of fiduciary media is required in connection with the issue of subsidiary token coins, such as pennies and nickels. (b) Explain why the effect of fiduciary media in this case is not to reduce the value of the precious metals, but, if anything to add somewhat to their value. (c) Explain why no significant credit expansion could occur in connection with the issue of fiduciary media in this case.
17. Explain how the adoption of a 100-percent-reserve gold standard at a sufficiently high price of gold could serve to end inflation once and for all and, at the same time, prevent a major depression from developing as the result of the sharply higher demand for money for holding that would result from the cessation of all further inflation.
18. Explain the potential danger in connection with the U.S. first obtaining a disproportionate share of the world's gold and then losing back a major portion of it, and how the dangers could be avoided.
19. Explain how the adoption of a 100-percent-reserve gold standard at a sufficiently high price of gold would both establish a high degree of financial liquidity and reduce the burden of debt in the economic system.
20. Describe the connection between the high degree of financial liquidity that establishment of a 100-percent-reserve gold standard could achieve and the ability to bring to carry out the large-scale reduction in government activity and spending entailed in dismantling the welfare state. In your answer, be sure to explain the important parallel provided by the experience of the immediate postWorld War II era, and why this time the positive results of could be even more dramatic.